**STATE OF OREGON**

**Research Report**

***LEGISLATIVE REVENUE OFFICE***

**H-197 State Capitol Building**
**Salem, Oregon 97310-1347** **(503) 986-1266**
**http://www.leg.state.or.us/comm/lrohome.htm**

**Research Report #6-99** **November 1999**

# The New Direction of the Oregon Property Tax System Under Measure 50

## SUMMARY

The passage of Measure 50 in May 1997 brought about major changes to Oregon's property tax system. With Measure 50 now fully in place, this report outlines the current property tax system. The new system contains the following key elements:

- Oregon's property tax is largely a tax rate system
- Each district has a permanent property tax rate established in Measure 50
- Assessed value growth is limited to 3% a year – with a few exceptions
- Voters may approve temporary taxes outside the permanent rates
- Taxes on any individual property may not exceed Measure 5 tax limits of $5 per $1000 of real market value for schools and $10 per $1000 for non schools
- Voter-approved bonds may exceed the Measure 5 limits, but other temporary levies may not
- New property tax levies may only be approved at a general election with at least half of the registered voters eligible to vote

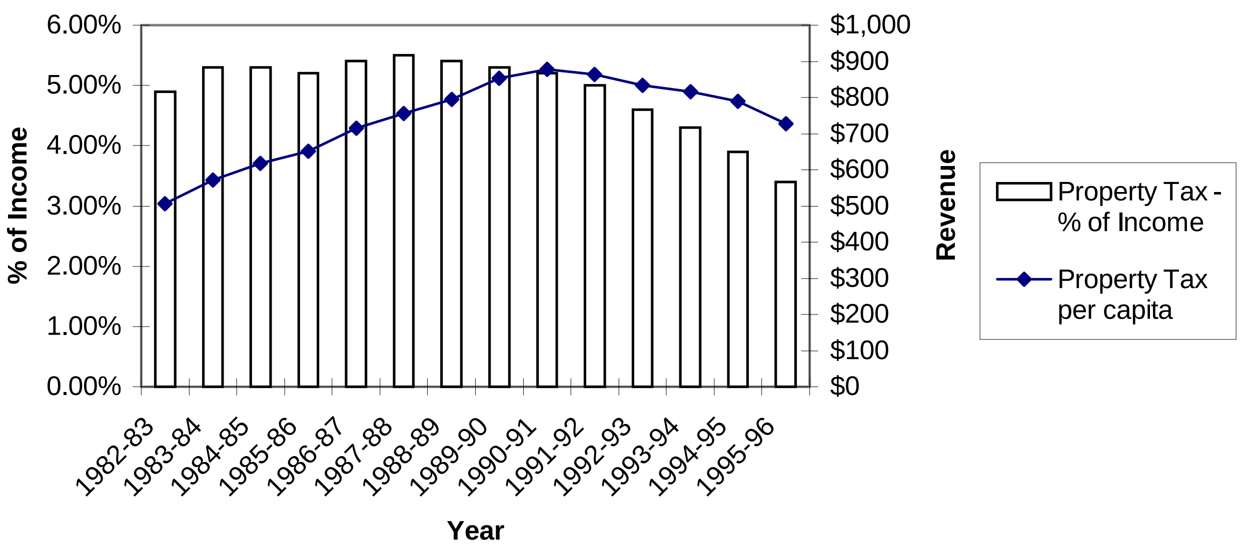
# INTRODUCTION

## Overview

Oregon's property tax is local. All property taxes are collected locally to fund schools and governments in the area. The state does not receive any property tax revenue.

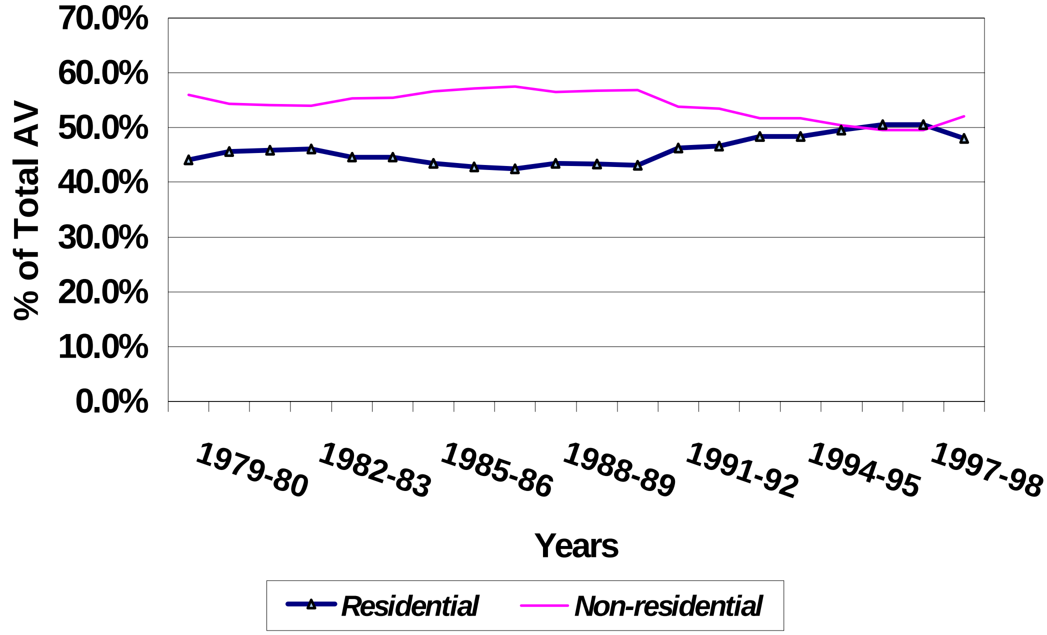
During the 1990s, Oregon's property tax system has been limited by Measures 5 and 50. Measure 5, passed in November 1990, was successful in reducing both the property tax per capita and the property tax as a % of personal income. As Figure 1 reveals, before the implementation of Measure 5, property tax per capita was rising steadily and the property tax as a % of personal income was remaining above 5%.

**Figure 1: Property Tax per Capita and % of Income -1982-1998**




One major problem inherent in Oregon's property tax system, after Measure 5, was the rising real market / assessed values of residential property. Figure 2 compares the % of total assessed value that is residential versus nonresidential property for 20 years, 1979-1999. From 1984-85 to just prior to the implementation of Measure 5, the difference in the share of total assessed value of residential versus nonresidential property was about 10%. Nonresidential property had about 55% of total assessed value and residential had 45% of total assessed value. Since 1990-91, the residential share of total assessed value has increased to roughly 50% and the nonresidential share of total assessed value has declined to approximately 50%. This occurred because the value of residential property during the 1990s grew faster than non-residential property. Since the property tax system under Measure 5 was tied to real market values, the overall property tax limit from Measure 5 was rising at the annual growth rate of real

**Figure 2: Comparison of Residential and Nonresidential Assessed Value as a % of Total Assessed Value - 1979-1999**




market value. Between 1991-92 and 1996-97, the real market average annual growth rate of residential land and property was 15.6%.

Overall property tax levies did decline each year from 1990-91 through 1995-96 which was the implementation period of Measure 5. Once school districts had reduced their tax rates to close to $5 per $1,000 real market value, property tax revenue rose again between 1995-97 because the Measure 5 Tax limit was still increasing due to real market value growth.

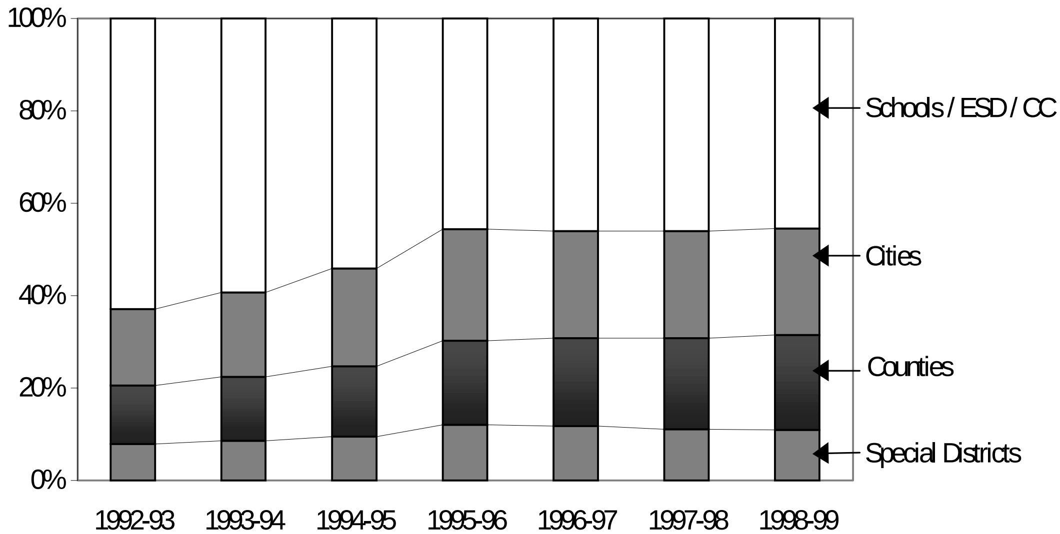
Oregon voters approved another property tax initiative, Measure 47, in November 1996 and this measure lead to the passage of Measure 50 in May 1997. The new property tax reform, Measure 50, addressed the problem of escalating taxes due to high growth of residential property values. It established different assessed and real market values for most property and limited the growth of assessed value. Taxes are based on assessed not real market values. Measure 50 changed the property tax system to a rate-based as opposed to a levy-based tax system.

## Taxing Districts

A wide range of entities impose property taxes, such as schools, cities, counties, parks and recreation, libraries, METRO, fire departments and many others. Most, but not all, local districts have the authority to levy a tax. Oregon's local governments and especially the school districts have been supported to a large extent by the property taxes in their area.

Figure 3 shows property taxes by district type from 1992-99. In 1992-93, schools (including community colleges and ESDs) imposed $1.5 billion-about 63% of all

**Figure 3: 1992-99 Property Taxes Imposed by District Type**



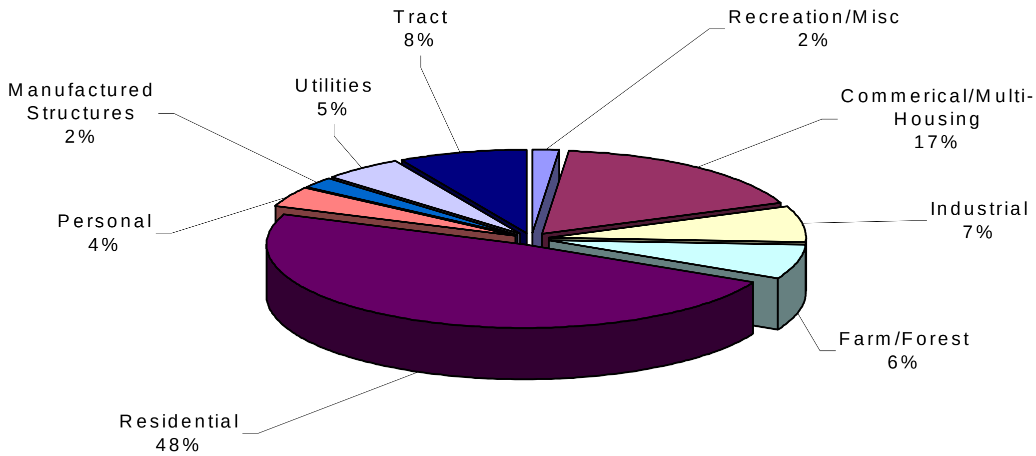

property taxes. Due to voter initiatives to limit property taxes, (Measures 5 and 50), total property taxes have been roughly flat and the school share has declined. By 1998-99, school property taxes declined to about $1.05 billion or 41.7% of total property taxes. By contrast, other governments' property taxes increased. In 1998-99, cities imposed $579.9 million,(23% of the total) and counties imposed $514.7 million, (20% of the total).

### What Property is Taxed?

Oregon imposes property taxes largely on real property, although some tangible personal property used in businesses is also taxed. Real property includes the land itself as well as the buildings, structures and machinery built upon it. Not only owner occupied homes, but rental residential and commercial businesses pay property taxes. Tangible personal property includes possessions (office furniture, movable equipment and tools) used in a business.

The process of identifying and assigning a value to taxable property is assessment. Property is assessed by county tax assessors with the exception of public utility and most large industrial property that is assessed by the Department of Revenue.

**Figure 4: 1998-99 Assessed Values by Property Class - % of Total**




Statewide, net assessed value was $171.6 billion in 1998-99. Figure 4 illustrates that in 1998-99, 48% of all assessed value was residential real property. Commercial and Multi-Housing property comprises another 17% of all the assessed value and industrial is another 7%. Residential, commercial and multi-housing real property combine for nearly 75% of all assessed value statewide. Personal property only comprises 4% of all assessed value.

*Specially Assessed and Exempt Property*

Not all property is taxable and some is taxed at lower than market values. Some property is allowed to be "specially assessed" or exempted. Farm and forestland are examples of specially assessed property. Farmland is valued at its "value for farm use" which may be less than the value in its highest and best use. There are now value limits placed on specially assessed property too. Specially assessed farm and forestland value corresponds to only 6% of all assessed value.

Major exemptions from property tax include most intangible property (stocks, bonds), tangible personal property of individuals, licensed property, business inventories, standing timber, government property and property used for religious or charitable purposes. In 1998-99, the total value of public, social welfare and business / housing exemptions was $3.6 billion or 2% of all net assessed property in the state. This 1998-99 exemption total underestimates the total exemption value statewide because 6 counties' total exemption value is not reported. A comprehensive list of the various exemptions and deferrals allowed in Oregon can be found in the 1999-01 Tax Expenditure Study.

## HOW THE TAX SYSTEM WORKS

The existing Oregon property tax system is controlled by state law and includes two constitutional limits on property taxes, Measure 50 and Measure 5. Measure 50 approved by Oregonians in May 1997, converted Oregon's property tax from a tax levy system to a largely tax rate system. It limits both property tax rates and assessed values. Under Measure 50, each taxing district has its own permanent tax rate, which can not be increased. Each property has an assessed value, which cannot increase more than 3% unless some new activity occurs on the property.

Measure 5, which started in 1991-92, limits the total amount of educational and governmental taxes districts can impose on property. On each property education-operating taxes must not exceed $5 per $1,000 of real market value of the property and non-education operating taxes must not exceed $10 per $1,000 real market value.

Figure 5, at the end of this report, outlines the steps involved in Oregon's taxation process. It describes and links together both the taxing district and individual tax payer's allocation of property taxes.

### District Levy Process

*District Adopts Budget*

Every year the governing board of each taxing district approves a local budget of its expenditures and an estimate of its tax revenues. The budget adds expenditures, an unappropriated ending balance, and operating contingencies. It then subtracts the non-property tax revenues. The result is the total property tax revenue needed to balance its budget. The total tax needed to balance the budget is then compared to the district's total property tax authority.

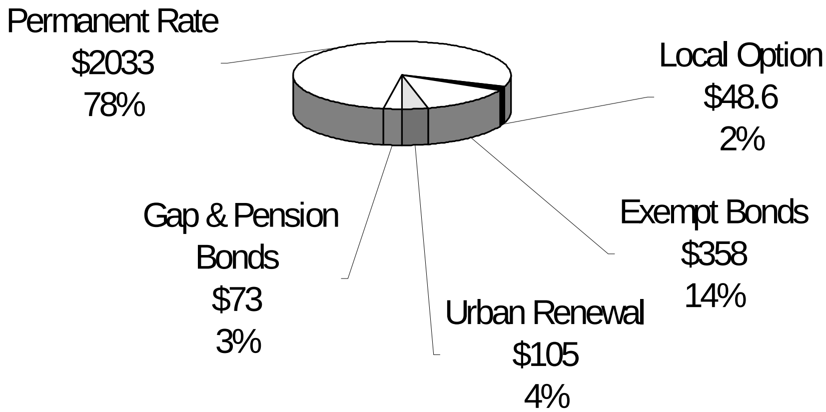
The district determines its total authority to tax. A district's taxing authority is the amount raised by its permanent tax rate plus any other authority, usually voter-approved, it might have. If the total tax authority for the district is greater than the amount needed, to balance the budget, then the district can only impose taxes to pay for the expenses approved in its budget. If the total authority falls short of the total taxes needed, the local district must reduce expenditures or ask voters to approve a local option levy.

| Example 1: County A – District Budget (in thousands of $) | | | |
|---|---|---|---|
| Approved Expenditures: | $900 | Permanent Tax Rate: | $4.00 |
| Ending Balance: | $1 | | |
| Operating Contingencies: | $99 | Total Tax Rate Authority: (per $/1000) | $4.00 |
| Revenue Required: | $1,000 | Total Assessed Value: (in thousands of $) | $180,000 |
| Non-property Tax Revenue: | - $200 | | |
| **Total Revenue Needed:** | **$800** | **Total Tax Authority:** | **$720** |
| **Problem: Total Revenue Needed – Total Tax Authority = Revenue Shortfall =$800 - 720= $80** | | | |

In example 1, the county's total tax needed is larger than the total tax authority so the district can either reduce expenditures or seek a local option levy of $80,000 which will have to be approved by voters.

*Types of Property Tax Authority*

**Figure 6: Taxes Imposed by Type of Tax - 1998-99 ($Millions)**




Most of a district's tax authority comes from its permanent tax rate. In addition, a district may get authority from a "gap" levy, a local option levy, urban renewal division of tax and special levy or an exempt bond. Each of these types of tax authority is illustrated in Figure 6 for 1998-99. Taxes from each district's permanent rate consisted of 78% of the total. Taxes for exempt bonds were most of the rest.

**Figure 7: Measure 5 (M5) & Measure 50 (M50)**

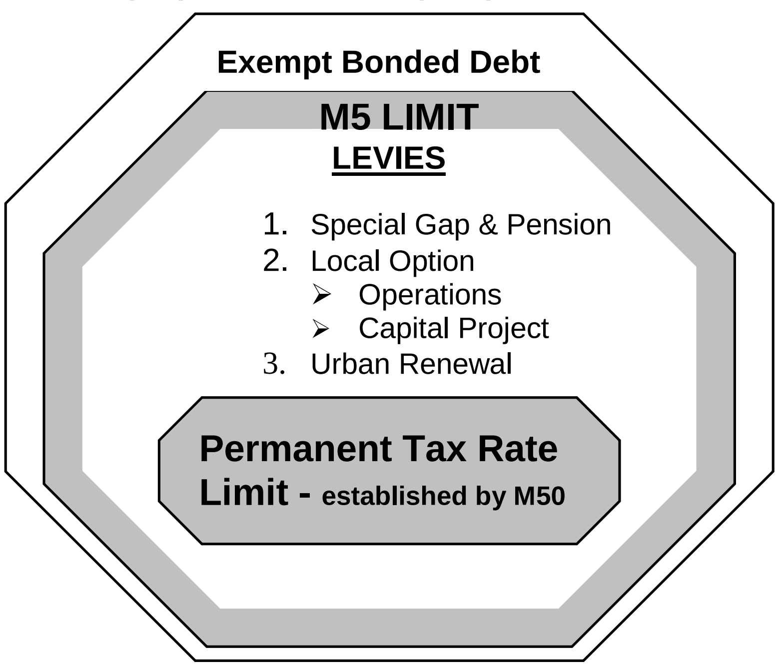


Figure 7 illustrates the current property tax system and highlights the various layers of property tax limits. A district may impose their permanent tax rate, established by M50, without additional voter approval. “Gap” levies, local option levies, and urban renewal taxes can be imposed above the permanent tax rate limit but these levies are still subject to Measure 5 limits. Exempt bond levies can be imposed outside both the Measure 5 and permanent rate limits.

## Permanent Rate Limit

In 1998-99, 1,334 districts in the state imposed property taxes under Measure 50. In the first year of Measure 50 (1997-98), a permanent rate[1] for each taxing district was established to decrease statewide operating taxes by 13.2%. These permanent rates cannot be increased without voter-approval statewide. Given the district's assessed value, the permanent rate limits the amount each local district can tax. If a district chooses to impose a tax rate less than their permanent rate, they can still impose the permanent rate in future years. These rates are applied to each property’s assessed value. Measure 50 also decreased 1997-98 assessed property values to 90% of the 1995-96 real market values for every property.

If there are new taxing districts, voters must establish a permanent rate for them. Districts that merge must set the new permanent rate so it will raise the same amount of revenue. If property is annexed, the district’s permanent rate will be applied to the annexed property, in addition to other taxing districts’ permanent and other tax rates already applied on the property.

## “Gap” Bonds

Local districts can impose a local option levy outside their permanent rate limit if the voters in their district approve it. Prior to Measure 50, some taxing districts had debt obligations that had been funded with operating taxes of the district. These districts have special authority to impose "gap" levy taxes that are outside the permanent rate limit. This authority was established to help these districts transition to the permanent rate limits.  Gap bonds will be phased out and no new “gap” levies can be created. Once the current gap bond obligations are paid, this tax authority will be incorporated into each district's permanent rate. The city of Portland police and fire pension levy is similar to gap bonds but this pension levy does not have a date when it must be paid off. This is the only pension levy throughout the state.

## Local Option Levies

If a district’s permanent tax rate is not sufficient to fund the approved budget, the district may ask voters to approve a local option levy. In 1998-99, 32 taxing districts imposed local option taxes, totaling $48.6 million. This type of tax had the biggest increase,

[1] The permanent tax rate consists of both a constitutional and statutorily mandated rate.

115%, from the prior year of $22.6 million in 1997-98. Local option levies are temporary. Operating levies can not exceed 5 years. Capitol levies can not exceed the lesser of 10 years or the useful life of the project. The 1999 legislature approved HB 2753, which allows K-12 schools the ability to also levy local option taxes. Since 1997, community colleges also had the authority to levy local option taxes but only enough to replace losses caused by Measure 50.

Local option levies must be approved at either:

- A general election (November of an even-numbered year)
- A "50% turnout" election – ballots are cast by at least half of the registered voters eligible to vote

## Urban Renewal Taxes

Urban renewal (UR) taxes are different and far more complex from the other property taxes. Urban renewal agencies receive property taxes to fund projects but they do not have permanent tax rates. When they are created, the property value in the designated urban renewal plan area is identified and "frozen". The difference between the total and frozen assessed values is the increment value. If a taxing district is within an UR plan area, the taxes for that local taxing district are divided. This revenue source for urban renewal agencies is the division of tax and it is based on the amount of increment value within the taxing district's area. For a description of the urban renewal program, see LRO Research Report 7-99 titled, The Urban Renewal Program – Under the Past and Current Property Tax System.

## Exempt Bonds

Local option taxes can be used for operations or capital improvements. Exempt bond levies are used to repay general obligation bonds. To impose an exempt bond levy, the district must get voter approval to issue the bonds. The bonds must be approved at a general election or "50%-turnout" election. Once the bonds are approved and issued, the taxing district can impose the taxes needed to repay the principal and interest on the debt.

A district seeking to fund a capital project could choose either a local option levy or exempt bonds. Both require voter approval under the same conditions. The local district might prefer an exempt bond levy because the taxes can be imposed outside Measure 5 tax limits and there is no limit on the length of the levy. However, only the following items are considered part of the definition of capital construction:

- Public safety or law enforcement vehicles with a projected life of 5 years or more
- Supplies and equipment that are intrinsic to the permanent structure
- Maintenance and repairs if the need could **not** be reasonably anticipated

Exempt bonded levies can **not** be used for certain equipment or furnishings that are not intrinsic to the permanent structure, like computers, and yearly maintenance and repairs that could be anticipated.

In 1998-99, 508 taxing districts imposed exempt bonds and the share of total taxes was about 14%. Between 1991-99, bond levies grew at an average annual growth rate of approximately 13%.

*District Certifies Levy to Assessor*

After the budget is adopted, the district certifies its tax levies to the assessor. This certificate gives the assessor the authority to impose taxes for the district on property owners.

## Imposing Taxes on Each Property

*Assessor Calculates Permanent Rates and Taxes*

Based on certification, the assessor determines the actual permanent tax rates for each taxing district. This rate might be lower that the district's permanent rate limits because:

- The district voluntarily certified a rate below its permanent rate limit.
- State law required some other revenue to be offset against the certified rate.
  Current law offsets timber severance taxes against non-school generating levies.

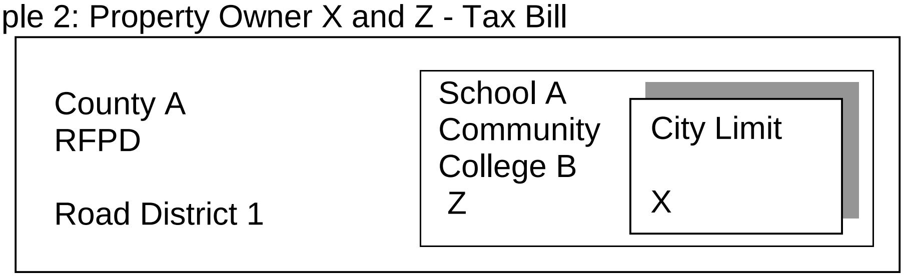
The rate might be higher than the permanent rate if:

- The district has a "Gap" levy.
- Voters have approved a local option levy or exempt bonds.

<u>Property Owners' Tax Bill</u>

Each property owner's tax bill is not just one tax rate; it is a sum of all the rates of taxing districts that levy tax on the property. Example 2 below illustrates typical components of a property owner's tax bill.

Example 2: Property Owner X and Z - Tax Bill



Suppose property X is in the jurisdiction of a county, RFPD (rural fire and police district), road district 1, city, school A and community college B. To find the total tax rate, the assessor sums the tax rates of all the taxing districts. Suppose property Z is outside the city, but still within the other taxing districts. The total tax rate is the sum of the county, RFPD, road district 1, Community College B and School A tax rates. Generally, property inside a city has a higher total tax rate than equivalent property outside the city because property owners outside the city limits do not pay the city tax.

*Tax is the rate times assessed value*

Using the district's permanent tax rate, the assessor calculates the tax generated from the permanent tax rate by multiplying the permanent tax rate for each district imposing a tax on the property by the property's assessed value. This yields a tax for each district on the property before Measure 5 compression.

*Assessed Value*

In the first year of Measure 50 (1997-98), each property's assessed value was rolled back to its 1995-96 real market value, less 10%. This value can not grow faster than 3% per year unless activity, like new construction, occurs on the property. The activities that would permit value to grow more than 3% are shown below.

**<u>Additions to Property</u>** -

Permit Assessed Value to Grow by more than 3% a year

- New construction
- Major improvement projects with real market values greater than:
  - $10,000 in one year or
  - $25,000 over 5 years
- Property is rezoned and used consistently with the rezoning
- Property is partitioned or subdivided
- Property loses its exemption
- Property is first assessed as omitted property
- A lot line adjustment is made with respect to the property but the overall assessed value of the effected properties does not change

If new construction occurs, the new property is added to the tax roll at the average property change ratio of assessed to real market value of other property in the same area and class. Finally, a property's assessed value can not exceed its market value.

*Measure 5 Limits Imposed*

Measure 5 limits the total taxes that may be imposed on a property, except taxes used to pay exempt bonds. After calculating the taxes from permanent, local option, Gap bonds and urban renewal tax rates, the assessor adds the taxes together by education or government category, and compares them to the Measure 5 limits. If total taxes exceed the Measure 5 limits, the taxes are reduced.

The Measure 5 limits are:

- Total education operating taxes can not exceed $5 per $1000 of a property's real market value

Educational taxes include those imposed by K-12 school districts, education service districts (ESD's) and community colleges.

- Total non-education operating taxes can not exceed $10 per $1000 of a property's real market value

If taxes on a property must be reduced to the Measure 5 limit, any local option taxes in the category are cut first. If there are no local option taxes or taxes still exceed the limit after local option taxes are eliminated, then all remaining taxes in the category are cut proportionally. The process of reducing taxes extended on property to meet the Measure 5 limits is tax compression.

<u>Examples 3 & 4 - Property Tax Limits</u>
Assume for Property Owner X:
Real Market Value (RMV) = $150,000 and
Assessed Value (AV) = $120,000

- Example 3: The permanent tax rate for education is $6.50 and total government permanent tax rate is $8.25 per $1,000 assessed value.

- Example 4: RFPD passes local option levy of $3 per $1,000 assessed value so now the current tax rate for government is $13.00 on assessed value

- Taxes to pay for exempt bond obligations are the only taxes outside the M5 limits

Property Tax Rates ($/1000 assessed value) Used in Examples 3 and 4

| **Taxing Districts – Property Owner X** | Permanent Tax Used | Local Option Rate | "Gap" Bond Rate | Exempt Bond Rate | Total Tax Rate (excludes exempt bond rate) | Total Tax Rate |
|---|---|---|---|---|---|---|
| City | $4.0 | $1 | $0.5 | $0.5 | $ 5.5 | **$6.0** |
| School A | $4.5 | $0.0 | $0.0 | $1.5 | $ 4.5 | **$6.0** |
| Comm. College B | $2.0 | $0.0 | $0.0 | $0.2 | $ 2.0 | **$2.2** |
| County A | $3.5 | $1 | $0.0 | $0.5 | $ 4.5 | **$5.0** |
| Road District 1 | $0.5 | $0.0 | $0.0 | $0.0 | $ 0.5 | **$0.5** |
| RFPD | $0.5 | $0.0 * | $0.0 | $0.0 | $ 0.5 | **$0.5** |
| | | | | | | |
| Education Total | $ 6.5 | $0 | $0 | $1.7 | **$ 6.5** | **$ 8.2** |
| Government Total | $ 8.5 | $2 | $0.5 | $1.0 | **$11** | **$13** |
| **Totals:** | **$15.0** | **$2** | **$0.5** | **$2.7** | **$17.5** | **$21.2** |
| * Increased to $3.00 in Example 4 | | | | | | |

Example 3:

| | | | | | |
|---|---|---|---|---|---|
| **M5 education tax limit** | ($5.0x$150)= | **$750** | **M5 government tax limit** | ($10x$150)= | **$1,500** |
| **Permanent tax- education** | ($6.5x$120)= | **$780** | **Total Tax (Subject to M5 limits) government** | ($11x$120)= | **$1,320** |
| **Education Tax exceeds M5 limit** | | **$ 30** | **Government Tax exceeds limit** | | **$ 0** |

***Hits Measure 5 limit***

The permanent tax for education exceeds the Measure 5 limit but the governmental tax is below the Measure 5 limits. The total education tax must be reduced by $30 to the Measure 5 limit of $750. Since these schools do not have local option levies, the taxes generated from the permanent tax rate must be reduced in proportion to the amount of taxes extended on the property. The school district extends 69% of the education taxes on this property so the school district will absorb 69% of the total compression losses of $30 or $21. The community college taxes will be reduced by $9 or 31% of the total compression loss of $30. The total tax for property owner X is the sum of education, government and exempt bond taxes ($750 + $1,320 + $324) = $2,394.

Example 4:

| | | | | | |
|---|---|---|---|---|---|
| **M5 education tax limit** | ($5.0x$150)= | **$750** | **M5 government tax limit** | ($10x$150)= | **$1,500** |
| **Permanent school tax** | ($6.5x$120)= | **$780** | **Total Tax (Subject to M5 Limits) government** | ($15x$120)= | **$1,800** |
| **Education Tax exceeds** | | **$ 30** | **Government Tax exceeds** | | **$ 300** |

***Hits Measure 5 limit***

Now with the RFPD levy, the current government tax rate is $15 per $1,000 of assessed value with a total tax of $1,800. This exceeds the M5 government tax limit of $1,500. Therefore, both education and non-education taxes are reduced to Measure 5 limits. The local option taxes, for the city, county and RFPD, will be cut first to enforce the M5 tax limit. The local option levy taxes would be reduced in proportion to each levy's share of the total taxes extended. Before the local option levies are reduced, the levies would yield the following taxes: City - ($120 x $1) = $120, 20% of total local option taxes, County - ($120 x $1) = $120, 20% of the total taxes, and RFPD – ($120 x $3.0)=$360, 60% of total local option taxes of $600. After tax compression of $300, the following local option levy taxes are imposed: City – ($120-(20% x $300))=$60, County – ($120-((20% x $300))=$60 and RFPD – ($360-(60% x $300))=$180. The total tax for property owner X would be ($750 + $1,500 + $324) = $2574.

## Final Stage of the Taxing Process

Tax bills are sent from district collectors to taxpayers. If taxpayers pay their entire tax bill by November 15th, they will receive a 3% discount. All payments are deposited in the segregated tax account. This account is then distributed to districts in proportion to their tax imposed.

## RESULTS AND IMPLICATIONS

Measure 5 and 50 converted Oregon's property tax into a largely rate-based system with limits on assessed value growth. Although there are exceptions- local option and exempt bond levies may be levy based for example- the new system has changed the dynamics of Oregon's property tax system. This section describes some of the changes.

### Tax annually grows by 3% on unimproved property

Tax payers will likely see their property's assessed value and tax increase by 3% a year unless they perform major construction on their property or approve additional tax levies. Property tax revenues for taxing districts should increase by at least 3% as long as assessed values are less than real market values. In 1998-99, statewide total assessed value was 20% lower than total real market value. Taxing districts in high growth areas will benefit directly through increased property tax revenues from the increase in assessed value with new additions being added to the property tax roll. The increase in districts' property tax revenue is a result of higher assessed value rather higher tax rates.

### Differential growth rates in districts

Districts with substantial growth have new construction and major improvements to add to the property tax roll. This leads to increases in property tax revenues for these districts. In areas of Oregon, where new construction and growth is slowing, the assessed values and property tax revenues may grow by only 3% each year. Construction growth throughout the state is an important indicator in explaining the differences in the growth rates of taxing districts.

### A district's exempt or partially exempt property influences its total revenues

Property tax exemptions directly effect tax revenues. The current property tax system, with permanent rates already established, link a change in a district's exempt or partially exempt property to the district's total revenues. If a property owner loses an exemption and the property is added to a district's assessment roll, then the local governments' tax revenues will increase in the following year. The reverse is also true. Therefore, any changes to regulations surrounding specially assessed and exempt property will have a direct effect on local governments' property tax revenues. A change in the total amount of assessed value in a district does not directly affect property owners' total tax bills.

### Long-term effects

*Factors Affecting Growth of Property Taxes*

Voters can elect to impose local option taxes above the permanent rate amount authorized if certain voter participation requirements are met. Since Measure 50 changes in 1997, local option levies are now more difficult to pass in an election. Elections must meet the double majority or be held at a general election time. Also, the 1999 legislation, allowing K-12 schools the opportunity to seek a local option levy, will increase the competition for local option taxes. School districts as well as local governments will be asking voters for approval of local option levies. Taxing districts are required to reduce their local option levies if the additional tax rate from the local option levy causes property owners' taxes to exceed the Measure 5 limits. The long-term effects of the current property tax system will depend on each district's success in passing local option levies and the size of the local levies allowed by voters.

*Stability*

The U.S. and Oregon economies have experienced one of the longest periods of low interest rates and inflation in its history. If interest rates rise due to concerns over higher inflation, this could reduce the amount of new construction and property value statewide from the 1998-99 assessed value growth rate of 5.8%. Higher interest rates make it more expensive for buyers to purchase homes leading to slower demand and real market value growth. If inflation rises above the growth rate of property taxes, cost increases for a local district could exceed their growth in property taxes. The current property tax system does not take into consideration changes in inflation. Since inflation is an indicator of the rise in prices of goods in the economy, during periods of high inflation, property tax as a % of personal income would tend to decline. Partial property tax exemptions, like the war veterans' exemption, do increase with growth in inflation. This causes property tax revenues to further decline.

If Oregon enters into a recession, the slower growth throughout the state will decrease the amount of new construction and improvements added to total assessed value. Most districts will only experience a 3% annual increase in assessed value and property tax revenues during a recession. Since the current tax system uses assessed not real market values to calculate property taxes, the assessed values could still grow by 3% a year until they approach real market values. During a recession, property real market values will decline but this will not affect property taxes until real market values fall below assessed values. Assessed values can not exceed real market value.

Measure 5 could also limit district revenues. In a recession when property values are declining, Measure 5 property tax limits will fall as well. This decreases local governments' and school districts' authority to levy local option taxes. It's unclear how many local districts would be effected by the Measure 5 tax limit during a recession.

## Implications of the current tax system

Measures 5 and 50 have reduced the property taxes allocated for schools. The tax burden for schools has shifted to Oregon's General Fund revenues. The source of General Fund revenues is primarily income tax receipts, which are very elastic to changes in income. Schools have moved from having a stable property tax base to having a more volatile income tax base for their funding.

## GLOSSARY OF TERMS

**Additions to property -** Under Measure 50, there are a few exceptions which will cause the assessed value in a taxing district to grow by more than 3% a year. New construction is an example of additions to the property tax roll. Other improvement projects are classified into minor and major construction.

*Minor -* New remodeling and improvement projects that have a real market value of less than $10,000 in a single year and/or $25,000 over 5 years. The increase in value from these projects is minor so they do not need to be added to the property tax roll.

*Major -* Major construction projects that have a real market value of more than $10,000 in a single year and/or $25,000 over 5 years. The value of these projects is added to the property tax roll.

**Assessed value (AV):** the value set on real and personal property as a basis for imposing taxes. It is the lesser of the property's maximum assessed value or real market value.

**Bond levy:** Amount of levies needed to pay principal and interest on district bonded debt. This levy can only be used for capital construction projects. The levies must be approved by voters in a general election or an election that has at least 50% voter turnout.

**Compression:** This is the process of reducing taxes extended on a property so that the total taxes fall within the Measure 5 limits of $5 per $1,000 real market value for education and $10 per $1,000 real market value for general government. Compression is performed on a property-by-property basis.

**Division of tax:** One method used by urban renewal agencies to collect property tax revenues. For local districts within an UR plan, their property taxes are divided and a portion is allocated to the UR agency. The portion of taxes collected by an UR agency is based on the ratio of increment to total assessed value.

**Frozen value:** Assessed value of the property within an urban renewal plan area established at the time the urban renewal plan was formed.

**Increment value:** Total assessed value of property in an urban renewal plan area in excess of the frozen value.

**Local option levies:** Property tax levies for operating or capital purposes beyond the revenue generated by permanent tax rates. The levies must be approved by voters in a general election or an election that has at least 50% voter turnout. These levies can be fixed dollar or rate based levies.

**Maximum assessed value:** The taxable value limitation placed on real or personal property by Measure 50. The value will increase by 3% each year. The 3% increase can be exceeded in certain circumstances like if there are qualifying improvements made to the property.

**Measure 5:** The constitutional tax limitation passed by Oregon voters in November 1990. This measure limited the total amount of property taxes allowed on each individual property. Educational districts could impose a tax up to ($5 per $1,000 of real market value of the property) and non-education districts could impose a tax of up to ($10 per $1,000 of real market value). Measure 5 limits still apply after the passage of Measure 50 in 1997.

**Measure 50:** A constitutional property tax rate and assessed value limitation passed by the voters in May 1997. This measure established a permanent tax rate for each taxing district in the state and set assessed value for the 1997-98 tax year at 90 percent of the 1995-96 assessed value for each property in the state. Assessed value growth was limited to 3% a year with a few exceptions and can not exceed real market value of the property.

**Real market value:** The amount in cash that could reasonably be expected by an informed seller from an informed buyer in a transaction between a willing buyer and willing seller as of the assessment date. It is the value used to test the Measure 5 constitutional limits for non-specially assessed value.

**Tax authority:** Amount of property tax each district is allowed to impose on taxpayers as outlined in the constitution or voter approved levies. A taxing district's authority to tax may be higher than the tax rate it actually chooses to impose on property owners. Under Measure 50, each taxing district has a permanent rate authority. Districts can choose to impose the permanent rate or a lower rate than their authority. Districts' authority to tax will not change if they do not impose the full amount of their taxing authority. Some districts also have local option rate authority. Voters approved this authority. Districts could also receive tax authority from Gap or exempt bonds or an urban renewal special levy.

**Taxes imposed:** The taxes due to be paid by taxpayers after the property tax rate limits have been applied.

**Tax levy system:** A tax system where levies for taxing districts are determined by the revenues needed to cover their operating expenses. In most cases, voters must approve the levies. Once they are approved, the taxing district divides the total levy by all the assessed property value in their jurisdiction and this determines the tax rate applied to each property owner's assessed property value.

**Tax rate system:** In this tax system, each taxing district has its own tax rate, which generates revenues by multiplying this rate by the assessed value of the property in their district. The tax rates are usually set by law or by voters. The assessed value in a district will change and affect their revenues but the tax rate does not change. Under Measure 50, Oregon's property tax system is mainly a rate-based system.

**Urban renewal (UR) agency:** The agency responsible for administering urban renewal programs. Urban renewal agencies can be activated by cities or counties. They can administer and oversee multiple UR plans and activities.

**Urban renewal plan area:** The geographic area in which the urban renewal projects are implemented. The boundaries of the plan area are established when the plan is formed. The increment value generated in this geographical area is a key component in determining the amount of the division of tax revenue for urban renewal agencies.

## Figure 5: Oregon's Current Property Tax System with Permanent Rates Established